

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)

1. Basis of preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standard (“MFRS”) 134, “Interim Financial Reporting” and paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”), and should be read in conjunction with the Group’s audited financial statements for the financial year ended 31 December 2014, which were prepared in accordance with the Malaysian Financial Reporting Standards.

The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2014.

2. Significant accounting policies

The accounting policies adopted by the Group for the quarterly financial statements are consistent with those adopted in the Group’s consolidated audited financial statements for the financial year ended 31 December 2014, except for the adoption of the following amendments/improvements to MFRS:

<u>Description</u>	<u>Effective Date</u>
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011–2013 Cycle	1 July 2014

The adoption of the above amendments/improvements to standards issued by Malaysian Accounting Standards Board (“MASB”) in the current financial year do not have any material impact to the financial statements of the Group.

As at the date of authorisation of these interim financial statements, the revised MFRSs, amendments to MFRSs and IC Interpretations that are issued by MASB but not yet effective in the current year are not expected to have any material impact on the financial statements of the Group.

3. Status of audit qualification

There was no audit qualification in the annual financial statements for the preceding financial year ended 31 December 2014.

4. Seasonal/cyclical factors

The business operations of the Group are subject to the sales cycle of the insurance business and wealth business.

5. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial year ended 31 December 2015.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)

6. Change in estimates

In general, the Group's insurance subsidiary, Manulife Insurance Berhad valued its policy liabilities using a prospective actuarial valuation. The expected future liability cash flows are determined using best estimate assumption with the appropriate allowance for provision of risk charge for adverse deviation from expected experience. Valuation assumptions used includes mortality, morbidity, lapse, expense, Participating life fund expected long term yield and Malaysian Government Securities (MGS) risk-free interest rate.

For the current year ended 31 December 2015, the applicable assumption changes resulted in higher actuarial liabilities of RM25.9 million, with a corresponding decrease in unallocated surplus for the participating business of RM28.5 million and increase in net profit before tax of RM2.6 million.

Other than as disclosed above, there were no changes in the basis used for accounting estimates for the current financial year ended 31 December 2015.

7. Debt and equity securities

There were no issuances, cancellation, repurchases, resale and repayment of debt and equity securities during the current financial year ended 31 December 2015.

8. Dividends

A first and final dividend of 10.0 sen per share, amounting to RM20,237,000 for the financial year ended 31 December 2014, was approved at the Annual General Meeting held on 28 May 2015 and the dividend was paid on 18 June 2015.

The Board of Directors has recommended a First and Final dividend of 9.0 sen per share for the financial year ended 31 December 2015, subject to the approval of the shareholders at the forthcoming Annual General Meeting.

9. Material events subsequent to the end of the financial period

There is no material event subsequent to the end of the financial period under review that has not been reported in the interim financial statements for the current financial period to date.

10. Changes in composition of the Group

One of the dormant subsidiaries, MAAKL Mutual Bhd had on 29 December 2015 been placed under Members' Voluntary Winding Up. The affairs and conduct of the company is now placed under the control of the Liquidator who will manage the entire process of liquidation. The winding up has no material impact on the financial results of the Group for the financial year ended 31 December 2015.

There were no significant changes in the composition of the Group for the current financial year to date, other than as disclosed above.

11. Contingent liabilities

There are no contingent liabilities as at the date of this report since the date of the last annual statement of financial position.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)

12. Next financial year prospects

The local economic environment will continue to be challenging in light of the global market volatility as well as weak oil price and local currency. Hence, our insurance and wealth management businesses will likely be under pressure. The movement in local currency and its resultant impact on the Malaysian Government Securities yields will give rise to volatility in insurance contract liabilities and earnings. Besides, we are mindful about the increased cost base of the life insurance operation hence the Group will continue to take a considered approach in the utilisation and allocation of resources when the growth plan is executed.

The Group expects that the implementation of Life Insurance and Family Takaful Framework will promote innovation and a more competitive market with higher levels of professionalism and transparency in the provision of insurance products and services. This regulatory development will create a conducive environment consistent with our business model. Furthermore, strong collaboration with our strategic bancassurance partner, Alliance Bank Malaysia Berhad ("ABMB"), will help further expand various business lines and broad range of bespoke products which aim to meet different needs of ABMB's customers that will continuously improve our economies of scale and profitability.

The integrated platform of our unit trusts and pensions will continue to deliver the synergistic benefits and support our business expansion. Our strong foreign fund capability will meet our distributors' and customers' ongoing demand for investment products. The Group will continue to expand its distribution channels and enhance its Information Technology capabilities.

The holistic customer-centric approach will be the key theme in the design of forward thinking solutions for our customers' most significant financial decisions. The Group will continue to enhance customer experience with integrated wellness programs and retirement solutions as well as digital applications which can create a long-lasting relationship.

Given the uncertainty and challenges, the Directors expect that there will be potential headwinds in respect of Group's performance in the next financial year ending 31 December 2016.

13. Profit forecast

The Group did not issue any profit forecast during the financial year ended 31 December 2015.

14. Group borrowings

The Group does not have any borrowings as at 31 December 2015.

15. Material litigation

There is no material litigation as at the date of this report and since the date of the last annual statement of financial position.

16. Status of corporate proposal

As at the date of this report, there are no corporate proposals that have been announced but not completed.

17. Significant event

There is no significant event during the financial year to date.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)

18. Operating segments

The core businesses of the Group are the life insurance business, management of unit trust funds, private retirement scheme funds, investments and fund management. Segment information is presented in respect of the Group's business segments which are as follows:

Investment holding : Investment holding operations and other segments
 Life insurance : Underwriting of Participating and Non-participating life insurance and unit-linked products
 Asset management services : Asset management, unit trust and private retirement scheme funds

	Cumulative 12 months ended 31 December							
	Investment holding		Life insurance business		Asset management services		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>External revenue</u>								
(a) Premium Income								
Gross premiums	-	-	814,177	779,025	-	-	814,177	779,025
Premiums ceded to reinsurers	-	-	(16,104)	(11,337)	-	-	(16,104)	(11,337)
Net premiums	-	-	798,073	767,688	-	-	798,073	767,688
(b) Investment income	14,383	15,650	157,627	154,493	1,530	1,413	173,540	171,556
(c) Net realised (losses)/gains	(479)	(132)	22,054	55,523	-	-	21,575	55,391
(d) Net fair value (losses)/gains	(817)	(519)	(64,610)	(12,229)	3	-	(65,424)	(12,748)
(e) Fee income	-	-	-	-	56,938	58,806	56,938	58,806
(f) Other operating income	-	-	1,605	1,767	144	235	1,749	2,002
Total external revenue	13,087	14,999	914,749	967,242	58,615	60,454	986,451	1,042,695
<u>Inter-segment revenue</u>								
(a) Rental income	1,084	788	473	366	-	-	1,557	1,154
(b) Fee income	807	868	3,343	2,092	7,765	7,745	11,915	10,705
(c) Dividend Income	9,000	4,000	3,642	3,424	-	-	12,642	7,424
(d) Net realised gains	-	-	654	225	-	-	654	225
(e) Fair value losses	-	-	-	(9)	-	-	-	(9)
Total inter-segment revenue	10,891	5,656	8,112	6,098	7,765	7,745	26,768	19,499
Total revenue by segment	23,978	20,655	922,861	973,340	66,380	68,199	1,013,219	1,062,194
(Loss)/profit before taxation	(300)	1,662	54,531	52,674	(6,338)	(4,422)	47,893	49,914
Segment assets	696,968	724,116	4,462,550	4,218,015	131,344	124,220	5,290,862	5,066,351
Segment liabilities	10,717	19,579	4,011,440	3,809,025	78,722	56,305	4,100,879	3,884,909

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**18. Operating segments (continued)****Reconciliation of reportable segments**

	Cumulative 12 months ended	
	31.12.2015	31.12.2014
	RM'000	RM'000
<u>Total revenue</u>		
Total revenue for reportable segments	1,013,219	1,062,194
Elimination of inter-segment revenue	(26,768)	(19,499)
Total revenue as per statement of profit or loss	986,451	1,042,695
	As at	As at
	31.12.2015	31.12.2014
	RM'000	RM'000
<u>Segment assets</u>		
Total assets for reportable segments	5,290,862	5,066,351
Elimination of inter-segment assets	(424,801)	(434,882)
Total assets as per statement of financial position	4,866,061	4,631,469
<u>Segment liabilities</u>		
Total liabilities for reportable segments	4,100,879	3,884,909
Elimination of inter-segment liabilities	(12,064)	(16,338)
Total liabilities as per statement of financial position	4,088,815	3,868,571

19. Review of performance

The management uses operating revenue as a measure of performance for each operating segment. Operating revenue for each reportable segment consists of gross premiums, investment income and fee income.

Financial year ended 31 December 2015 vs Financial year ended 31 December 2014

The Group achieved operating revenue of RM1,044.6 million for the financial year ended 31 December 2015 (YTD December 2015), an increase of 3.5% or RM35.2 million compared to the corresponding financial year ended 31 December 2014 (YTD December 2014) of RM1,009.4 million. However, the Group's profit before tax was RM2.0 million lower as compared to the profit before tax in the corresponding YTD December 2014 (2015: RM47.9 million, 2014: RM49.9 million).

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue and profit before tax decreased by RM1.3 million and RM2.0 million as compared to YTD December 2014 mainly attributable to the lower investment income and higher management expense.

Life insurance business – Operating revenue of the life insurance business increased by RM38.3 million (2015: RM971.8 million, 2014: RM933.5 million) mainly due to higher contribution from investment-linked business during the current financial year ended December 2015. Profit before tax was RM1.9 million higher compared to YTD December 2014 due to higher new business gains and favorable impact on actuarial liabilities as a result of higher Malaysian Government Securities ("MGS") yield in the current financial year.

Asset management services – Operating revenue of Asset Management business slightly decreased by 2.8% in the current financial year (2015: RM58.5 million, 2014: RM60.2 million). Loss before tax was RM1.9 million higher compared to YTD December 2014 mainly affected by lower unit trust sales charge due to lower unit trust sales and higher IT outsourcing expense.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)

19. Review of performance (continued)

4th Quarter 2015 vs 4th Quarter 2014

The Group's operating revenue for the quarter ended 31 December 2015 increased by 22.0% (or RM58.4 million) compared to the corresponding quarter ended 31 December 2014 (2015: RM323.6 million, 2014: RM265.2 million). The Group's profit before tax was RM11.0 million for the current quarter, RM10.6 million lower as compared to the profit before tax in the corresponding quarter ended 31 December 2014 of RM21.6 million.

Performance of the respective operating business segments are as follows:

Investment holding – Operating revenue (2015: RM3.3 million, 2014: RM3.6 million) and loss before tax in the current quarter remain consistent as compared to the preceding year's corresponding quarter.

Life insurance business – Operating revenue of the life insurance business increased by RM61.9 million (2015: RM306.7 million, 2014: RM244.8 million) mainly due to higher contribution from investment-linked business as compared to Q4 2014. Profit before tax was RM9.4 million lower in the current quarter (2015: RM13.8 million, 2014: RM23.2 million) mainly due to less favorable impact on actuarial liabilities as a result of changes in MGS yield compared to corresponding quarter last year.

Asset management services – Operating revenue decreased by RM3.0 million (2015: RM13.8 million, 2014: RM16.8 million) and loss before tax increased by RM1.3 million (2015: RM2.8 million, 2014: RM1.5 million) compared to preceding year's corresponding quarter mainly affected by lower unit trust sales charge due to lower sales.

20. Commentary on the quarterly results compared to the results of preceding quarter

The Group reported lower profit before tax of RM11.0 million for the current quarter under review as compared to the profit before tax of RM18.4 million in the preceding quarter ended 30 September 2015. The decrease of RM7.4 million was mainly attributable to less favourable claim experience and management expense.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**21. Net premiums**

Net premiums which are stated net of reinsurance expenses comprise the following:-

	3 months ended		Cumulative 12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
First year premium	33,519	27,359	98,494	86,678
Renewal year premium	130,070	128,567	480,370	473,961
Single premium	91,455	40,643	219,209	207,049
Total	255,044	196,569	798,073	767,688

22. Investment income

	3 months ended		Cumulative 12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
<u>Financial assets at FVTPL</u>				
- <u>designated upon initial recognition</u>				
Interest/profit income	3,213	3,410	13,029	13,414
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	5,612	4,412	16,493	13,086
- quoted outside Malaysia	29	-	110	51
- unit trusts	12	47	12	47
Accretion of discounts, net of amortisation of premiums	(3)	104	(62)	(30)
<u>AFS financial assets</u>				
Interest/profit income	20,985	19,415	79,812	75,850
Dividend/distribution income				
- equity securities				
- quoted in Malaysia	5,093	5,252	21,680	23,596
- unquoted in Malaysia	194	34	299	396
- unit trusts	6,598	6,520	6,598	6,520
Accretion of discounts, net of amortisation of premiums	(56)	640	372	2,486
<u>Loans and receivables</u>				
Interest/profit income	5,538	6,514	24,438	25,857
Accretion of discounts, net of amortisation of premiums	682	650	2,678	2,550
<u>Investment properties</u>				
Rental income	1,881	1,611	7,527	7,196
<u>Cash and cash equivalents</u>				
Interest/profit sharing income	182	129	554	537
	49,960	48,738	173,540	171,556

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)

23. Other expenses/(income)

	3 months ended		Cumulative 12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Net foreign exchange loss/(gains)	15,114	(12,373)	(47,952)	(13,086)
(Reversal of interest expense)/ interest expense on agent's bond withheld	(62)	18	21	40
Others	435	2,344	665	2,389
Tax on investment income of Life fund and Investment-linked funds				
- Current tax	5,471	2,593	9,405	14,999
- Deferred tax	596	(1,851)	(61)	(2,684)
	6,067	742	9,344	12,315
	<u>21,554</u>	<u>(9,269)</u>	<u>(37,922)</u>	<u>1,658</u>

The income tax for the Life fund and Investment-linked funds of the Group's insurance subsidiary is calculated based on the tax rate of 8% (2014: 8%) of the assessable investment income, net of allowable deductions for the financial period.

24. Profit before taxation

	3 months ended		Cumulative 12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting):				
Amortisation of intangible assets	2,712	1,725	8,492	5,702
Depreciation of property and equipment	837	609	3,176	2,624
Investment income (Note 22)	(49,960)	(48,738)	(173,540)	(171,556)
Allowance of impairment loss on other receivables	278	-	278	-
Allowance of impairment loss on insurance receivables	162	18	154	18
Net foreign exchange loss/(gains)	15,114	(12,373)	(47,952)	(13,086)
Net realised gains				
- realised losses on disposal of property and equipment	-	59	14	59
- realised gains on disposal of AFS investments	(2,910)	(9,328)	(21,576)	(55,450)
- realised gains on loans and receivables	-	-	(13)	-
	(2,910)	(9,269)	(21,575)	(55,391)

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**24. Profit before taxation (continued)**

	3 months ended		Cumulative 12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Profit before taxation is arrived at after charging/(crediting) (continued):				
Net fair value (gains)/losses				
- fair value (gains)/losses on investment properties	(438)	36	(438)	36
- fair value (gains)/losses on FVTPL investments/ derivatives	(44,517)	41,381	28,010	8,708
- impairment loss on quoted equities	6,968	3,971	37,852	4,004
	<u>(37,987)</u>	<u>45,388</u>	<u>65,424</u>	<u>12,748</u>

25. Taxation

	3 months ended		Cumulative 12 months ended	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
<u>Income tax</u>				
Current financial period	5,589	5,267	16,783	13,462
(Over)/under provision in prior financial period	(289)	-	(2,708)	841
	<u>5,300</u>	<u>5,267</u>	<u>14,075</u>	<u>14,303</u>
<u>Deferred tax</u>				
Reversal/origination of temporary differences	(1,491)	11	(1,568)	(67)
Over provision in prior financial period	-	-	(180)	-
	<u>(1,491)</u>	<u>11</u>	<u>(1,748)</u>	<u>(67)</u>
	<u>3,809</u>	<u>5,278</u>	<u>12,327</u>	<u>14,236</u>

The income tax for the Group is calculated based on the tax rate of 25% (2014: 25%) of the estimated assessable profit for the financial period.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**25. Taxation** (continued)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate is as below.

	3 months ended		Cumulative 12 months ended	
	31.12.2015 RM'000	31.12.2014 RM'000	31.12.2015 RM'000	31.12.2014 RM'000
Profit before taxation	11,006	21,619	47,893	49,914
Taxation at Malaysian statutory tax rate of 25%	2,751	5,405	11,973	12,479
Section 110B tax credit set off	(670)	(577)	(2,116)	(2,375)
Income not subject to tax	(753)	(399)	(1,914)	(1,080)
Expenses not deductible for tax purposes	2,641	994	6,402	3,541
Unrecognised deferred tax assets	129	(145)	870	830
	4,098	5,278	15,215	13,395
(Over)/under provision in prior financial period				
- Current tax	(289)	-	(2,708)	841
- Deferred tax	-	-	(180)	-
	3,809	5,278	12,327	14,236

26. Basic and diluted earnings per share

Basic earnings per share of the Group are calculated by dividing the net profit attributable to owners of the Company for the financial period by the weighted average number of ordinary shares in issue.

		3 months ended		Cumulative 12 months ended	
		31.12.2015	31.12.2014	31.12.2015	31.12.2014
Net profit attributable to owners of the Company	(RM'000)	7,196	16,394	35,542	35,644
Weighted average number of ordinary shares in issue	('000)	202,370	202,370	202,370	202,370
Basic and diluted earnings per share	(Sen)	3.55	8.10	17.56	17.61

The Company has no potential dilutive ordinary shares in issue as at the date of the statement of financial position and therefore, diluted earnings per share has not been presented.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**27. Insurance contract liabilities**

The insurance contract liabilities as at the date of the statement of financial position comprise the following:

	Gross		Net	
	As at 31.12.2015 RM'000	As at 31.12.2014 RM'000	As at 31.12.2015 RM'000	As at 31.12.2014 RM'000
Actuarial liabilities	2,163,399	2,133,716	2,160,641	2,132,685
Unallocated surplus	162,694	223,854	162,694	223,854
Fair value reserve	53,087	53,060	53,087	53,060
Asset revaluation reserve	842	641	842	641
Investment-linked policyholders' account	1,025,290	860,803	1,025,290	860,803
	<u>3,405,312</u>	<u>3,272,074</u>	<u>3,402,554</u>	<u>3,271,043</u>

The insurance contract liabilities and its movements are further analysed as follows:

	Gross		Net	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
At 1 January	3,272,074	3,072,828	3,271,043	3,072,737
Inforce reserve movement	(19,680)	16,768	(19,680)	16,768
New business reserve	23,466	17,179	21,739	16,239
Discount rate and other changes	25,897	11,905	25,897	11,905
Unallocated surplus	(61,160)	21,267	(61,160)	21,267
Fair value reserve, net of tax	27	(62,071)	27	(62,071)
Asset revaluation reserve	201	-	201	-
Investment-linked policyholders' account	164,487	194,198	164,487	194,198
At 31 December	<u>3,405,312</u>	<u>3,272,074</u>	<u>3,402,554</u>	<u>3,271,043</u>

28. Cash and cash equivalents

Cash and cash equivalents as at the date of statement of financial position are held in the following business segments:

	As at 31.12.2015 RM'000	As at 31.12.2014 RM'000
Investment holding	14,947	7,967
Life insurance business:-		
Shareholders' fund	9,135	4,087
Non Investment-linked business	50,571	49,891
Investment-linked business	4,872	2,425
Asset management services	44,048	41,603
	<u>123,573</u>	<u>105,973</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**29. Capital and other commitments**

	As at 31.12.2015 RM'000	As at 31.12.2014 RM'000
Capital expenditure commitments		
Property and equipment		
- Authorised but not provided for	-	2,699
Other commitments		
Exclusive bancassurance agreement		
-Authorised but not provided for	22,500	25,500

The insurance subsidiary of the Group is committed to pay annual fees under the terms of the bancassurance agreement. The annual fees will be expensed off to the profit or loss in the year of settlement.

30. Financial instruments**Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as follows:

- i) Available-for-sale (“AFS”);
- ii) Fair value through profit or loss - designated upon initial recognition (“FVTPL”);
- iii) Loans and receivables excluding prepayments (“LAR”); and
- iv) Other financial liabilities measured at amortised cost (“OL”).

Group	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2015					
Financial assets					
AFS financial assets	2,718,121	-	-	-	2,718,121
Financial assets at FVTPL	-	1,156,464	-	-	1,156,464
Loans and receivables	-	-	578,448	-	578,448
Insurance receivables	-	-	26,177	-	26,177
Cash and cash equivalents	-	-	123,573	-	123,573
	<u>2,718,121</u>	<u>1,156,464</u>	<u>728,198</u>	<u>-</u>	<u>4,602,783</u>
Financial liabilities					
Insurance payables	-	-	-	432,428	432,428
Other payables	-	-	-	167,258	167,258
	<u>-</u>	<u>-</u>	<u>-</u>	<u>599,686</u>	<u>599,686</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**30. Financial instruments (continued)****Categories of financial instruments (continued)**

Group	AFS RM'000	FVTPL RM'000	LAR RM'000	OL RM'000	Total RM'000
31 December 2014					
Financial assets					
AFS financial assets	2,617,754	-	-	-	2,617,754
Financial assets at FVTPL	-	960,873	-	-	960,873
Loans and receivables	-	-	663,674	-	663,674
Insurance receivables	-	-	23,608	-	23,608
Cash and cash equivalents	-	-	105,973	-	105,973
	2,617,754	960,873	793,255	-	4,371,882
Financial liabilities					
Financial liabilities at FVTPL	-	700	-	-	700
Insurance payables	-	-	-	396,502	396,502
Other payables	-	-	-	120,947	120,947
	-	700	-	517,449	518,149

31. Determination of fair values and fair value hierarchy**a) Freehold properties and investment properties**

The fair value of the Group's freehold properties and investment properties is determined based on the income method conducted by an independent qualified valuer.

Under the income method, the market value of the properties is determined based on the net annual income which is derived by deducting the annual outgoings from the gross annual income and capitalising the net income by a suitable rate of return consistent with the type and quality of the investment.

Fair value hierarchy

A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:-

Level 1 – Fair value is derived from unadjusted quoted price in active markets for identical properties that the entity can access at the measurement date.

Level 2 – Fair value is estimated using inputs that are observable for the properties, either directly or indirectly.

Level 3 – Fair value is estimated using unobservable inputs for the properties.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**31. Determination of fair values and fair value hierarchy (continued)****a) Freehold properties and investment properties (continued)**

The fair value of freehold properties and investment properties are classified within Level 3 of the fair value hierarchy. The fair value of the properties is as follows:

	Freehold properties		Investment properties	
	As at 31.12.2015	As at 31.12.2014	As at 31.12.2015	As at 31.12.2014
	RM'000	RM'000	RM'000	RM'000
Carrying amount*	20,875	20,087	88,125	84,292
Fair value as stated in valuation report**	20,875	20,208	88,125	84,292
Last recognised revalued amount	20,875	18,677	88,125	84,292

* Includes additional refurbishment costs capitalised during the year.

** Based on the valuation conducted by an independent qualified valuer.

Description of valuation techniques used and significant unobservable inputs to valuation of freehold properties and investment properties:

	Valuation technique	Significant unobservable inputs	Range
2015			
Freehold/ investment properties	Income method	Initial net yield	6.00%
		Reversionary net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.29 - RM4.80 psf
		Average rental for reversionary period	RM4.60 psf
2014			
Freehold/ investment properties	Income method	Initial net yield	6.00%
		Reversionary net yield	6.25%
		Void factor	5.00%
		Average rental for term period	RM4.38 - RM4.53 psf
		Average rental for reversionary period	RM4.40 psf

Significant increase or decrease in each of the unobservable inputs used in the valuation would result in a correspondingly higher or lower fair value of the properties.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)

31. Determination of fair values and fair value hierarchy (continued)

b) Financial assets and financial liabilities (continued)

(i) Determination of fair values

The fair values of the Group's and the Company's financial assets and financial liabilities are determined as follows:

- (i) The carrying amounts of financial assets and financial liabilities, such as loans and receivables, insurance receivables, cash and bank balances, insurance payables and other payables, are reasonable approximations of their fair values due to the relatively short term maturity of these balances;
- (ii) The fair values of quoted equities are based on quoted market prices as at the reporting date;
- (iii) The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate debt securities are based on indicative market prices;
- (iv) The fair values of negotiable instruments of deposit are calculated using the discounted cash flow method based on the maturity of the instruments at discount rates representing the average market rates quoted by at least two licensed banks;
- (v) The fair values of investments in mutual funds, unit trust funds and real estate investment trusts are valued based on the net asset values of the underlying funds as at the reporting date.
- (vi) The fair values of foreign exchange forward contracts are based on valuations provided by the financial institutions making reference to quoted market prices.

(ii) Fair value hierarchy

The Group and the Company categorises its fair value measurements according to a three-level hierarchy. The hierarchy prioritises the inputs used by the Group's and the Company's valuation techniques for determining the fair value of the financial instruments.

A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:

Level 1 – Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets and liabilities that the Group and the Company has the ability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.

Level 2 – Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are not prices (such as interest rates, credit risks, etc) and inputs that are derived from or corroborated by observable market data.

Level 3 – Fair value measurements using significant non market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risk.

In determining the fair value of its financial instruments, the Group and the Company uses observable market data, when available, and minimises the use of unobservable inputs to the extent possible when determining fair value.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**31. Determination of fair values and fair value hierarchy (continued)****b) Financial assets and financial liabilities (continued)****(ii) Fair value hierarchy (continued)**

The following table presents the Group's financial assets and financial liabilities that are carried at fair value as at reporting date.

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2015				
AFS financial assets				
Equity securities				
- Quoted in Malaysia	738,036	738,036	-	-
Unit trust funds	104,244	104,244	-	-
Real estate investment trust	3,131	3,131	-	-
Malaysian Government Securities	592,609	-	592,609	-
Government Investment Issues	192,170	-	192,170	-
Corporate debt securities				
- Unquoted	1,067,122	-	1,067,122	-
Accrued interest	18,293	-	18,293	-
	<u>2,715,605</u>	<u>845,411</u>	<u>1,870,194</u>	<u>-</u>
Financial assets at FVTPL				
Equity securities				
- Quoted in Malaysia	377,602	377,602	-	-
- Quoted outside Malaysia	4,890	4,890	-	-
Unit trust funds				
- Quoted in Malaysia	5,151	5,151	-	-
Malaysian Government Securities	67,339	-	67,339	-
Government Investment Issues	14,198	-	14,198	-
Corporate debt securities				
- Unquoted	201,739	-	201,739	-
Mutual funds	481,863	481,863	-	-
Derivatives				
- Forward foreign exchange contract	1,113	-	1,113	-
Accrued interest	2,569	-	2,569	-
	<u>1,156,464</u>	<u>869,506</u>	<u>286,958</u>	<u>-</u>

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)**31. Determination of fair values and fair value hierarchy (continued)****b) Financial assets and financial liabilities (continued)****(ii) Fair value hierarchy (continued)**

The following table presents the Group's financial assets and financial liabilities that are carried at fair value as at reporting date (continued)

	Carrying amount RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
31 December 2014				
AFS financial assets				
Equity securities				
- Quoted in Malaysia	705,806	705,806	-	-
Unit trust funds	98,491	98,491	-	-
Malaysian Government Securities	670,780	-	670,780	-
Government Investment Issues	175,622	-	175,622	-
Corporate debt securities				
- Unquoted	947,244	-	947,244	-
Accrued interest	17,295	-	17,295	-
	<u>2,615,238</u>	<u>804,297</u>	<u>1,810,941</u>	<u>-</u>
Financial assets at FVTPL				
Equity securities				
- Quoted in Malaysia	287,743	287,743	-	-
- Quoted outside Malaysia	4,153	4,153	-	-
Unit trust funds	1,760	1,760	-	-
Malaysian Government Securities	67,133	-	67,133	-
Government Investment Issues	18,541	-	18,541	-
Corporate debt securities				
- Unquoted	204,565	-	204,565	-
Mutual funds	374,566	374,566	-	-
Accrued interest	2,412	-	2,412	-
	<u>960,873</u>	<u>668,222</u>	<u>292,651</u>	<u>-</u>
Financial liabilities at FVTPL				
Derivatives				
- Forward foreign exchange contract	700	-	700	-

Unquoted equity securities of RM 2,516,566 (31 December 2014: RM2,516,566) are not disclosed in the fair value hierarchy above as they are measured at cost as fair value is not readily available.

MANULIFE HOLDINGS BERHAD

Interim financial statements for the twelve months period ended 31 December 2015

Notes to the Interim Financial Statements (Continued)

32. Disclosure of realised and unrealised earnings

Pursuant to the directives and guidance issued by Bursa Malaysia on 20 December 2010, the breakdown of the Group's retained earnings into realised and unrealised earnings is analysed as follows:

	As at 31.12.2015	As at 31.12.2014
	RM'000	RM'000
Total retained earnings of the Group:		
- Realised	562,459	548,499
- Unrealised	81,486	80,488
	<u>643,945</u>	<u>628,987</u>
Consolidation adjustments	15,917	15,570
Total retained earnings as per statement of financial position	<u>659,862</u>	<u>644,557</u>

The analysis of realised and unrealised earnings is made reference to the Guidance On Special Matter No. 1 *"Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements"* issued by the Malaysian Institute of Accountants on 20 December 2010.

This note should be read in conjunction with the Unaudited Condensed Consolidated Statement of Changes in Equity.

BY ORDER OF THE BOARD

Chua Siew Chuan
Joint Secretary
24 February 2016

Chin Mun Yee
Joint Secretary